STATE OF MONTANA

OFFICE OF THE STATE TREASURER

Report on Examination of Financial Statements

Fiscal Year Ended June 30, 1976

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

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OFFICE OF THE STATE TREASURER

Report on Examination of Financial Statements

Fiscal Year Ended June 30, 1976

76-8

OVERVIEW

AUDIT OF
OFFICE OF THE STATE TREASURER

March 1977

INTRODUCTION

The audit of the Office of the State Treasurer was a financial compliance audit. The purposes of the audit were to determine whether the financial operations of the division were properly conducted, whether the financial statements for fiscal year 1975-76 were presented fairly, and whether the Treasurer complied with applicable laws and regulations.

The audit resulted in an adverse opinion on the Treasurer's statement of cash position for the Treasurer's Cash Accountability Account and a qualified opinion on the Treasurer's financial statements. The adverse opinion means that the statement of cash position does not present fairly the treasury cash deposited with the Treasurer by state agencies. The exceptions are so significant that a qualified opinion is not justified. An adverse opinion does not indicate that the auditor discovered fraud or deliberate misuse of funds but that the statement of cash position does not adequately represent the state's cash on deposit with the Treasurer. The reasons for the adverse opinion are discussed in the audit report.

The audit resulted in a qualified opinion on the financial statements that report the Office of the Treasurer's financial position and results of operations. A qualified opinion means that the financial statements present fairly the financial position, operations and changes in fund balances in conformity with generally accepted accounting principles except as specifically noted.

There are 57 recommendations in the audit report. The deputy treasurer concurred with 48 of the recommendations. One recommendation relating to proposing legislation did not require a response. She did not reply to four recommendations directed to other agencies. She did not reply to three recommendations, and she did not concur with one. The Department of Administration concurred with the five recommendations addressed to it. The Governor's Office of Budget and Program Planning concurred with the one recommendation addressed to it. The Board of Investments concurred with the two recommendations addressed to it. The full texts of these agencies' written responses to the audit report are included in the report beginning on page 62.

SYNOPSIS OF MAJOR FINDINGS

There are several areas of major findings presented in the audit report.

Management Weaknesses

The Treasurer has not developed a management plan or an effective organization to perform the statutory treasury requirements. The Office of the State Treasurer also has an inadequate system of management controls to safeguard and account for the state's cash.

We found the state's treasury function operating without management leadership or direction. Treasury management deficiencies were so severe that they resulted in a loss of control over the state's cash.

Treasurer's Cash Accountability

The Treasurer performs the central banking function for state agencies, boards, and elected officials. When an agency deposits money with the State Treasurer, that deposit is recorded on the agency's Statewide Budgeting and Accounting System (SBAS) records as cash in the

state treasury. That cash is also recorded on the Treasurer's SBAS records as cash for which the Treasurer is accountable.

We found serious errors in the Treasurer's SBAS accountability accounts at June 30, 1976. The cash in demand accounts balance was overstated by $1,176,395. Cash advanced to banks for the payment of bonds and coupons was overstated by $1,432,000. Cash in the U.S. Treasury was understated by $3,057,000. Accountability for outstanding warrants was overstated by approximately $2 million. The Treasurer's SBAS general ledger also had an accumulated clearing account balance of over $1 million. This account should have shown a zero balance.

These errors are a direct result of management weaknesses. The Office of the Treasurer has not reconciled actual treasury cash to the SBAS records of cash deposited with her office. Therefore, the Treasurer has not adequately accounted for that cash.

Excessive Demand Deposit Balances

We have discussed the problem of excessive demand account balances and the associated lost interest income on those idle balances in each audit report on the Board of Investments since fiscal year 1971-72, and we have made recommendations to correct this problem.

Although the Board of Investments has set a $700,000 maximum compensating balance on all banks other than the Helena clearing bank, the Treasurer has not acted to reduce these idle cash balances. The state continues to lose approximately $427,000 each year in foregone interest income because the Treasurer has not acted to correct the problem. The only sure solution to this problem is to require the Treasurer to establish a workable method of maintaining no more than the $700,000 in nonclearing bank demand accounts, as stipulated by the Board of Investments.

Bank Collateral

The Treasurer is charged by statute with ensuring that banks which have state funds on deposit have pledged securities in amounts to secure that state money in case of bank failure. We found that the Treasurer's records of pledged collateral contained errors, omissions and unauthorized securities totaling $6.1 million. These errors indicate that the Treasurer has not fulfilled her statutory responsibility of ensuring that Montana's funds are adequately collateralized.

Other

We have made other recommendations in the audit report designed to improve the Treasurer's accounting procedures and internal control. These recommendations deal with several aspects of the Treasurer's operations, including cash change fund weaknesses, bank reconciliation procedures, deposit delays, unrecorded revenue, and inadequate personnel records. These recommendations are designed to improve the Treasurer's control over assets and transactions and to improve the quality of the Treasurer's financial reporting and accountability.

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ELECTED AND ADMINISTRATIVE OFFICIALS

OFFICE OF THE STATE TREASURER

Hollis G. Connors	State Treasurer
Vera S. Freseman	Deputy State Treasurer

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Deputy Treasurer, the Department of Administration, the Board of Investments, and the Office of Budget and Program Planning are included in the back of this report.

	Page
Establish treasury objectives which meet the statutory requirements of the office as the basis for a treasury management plan.	4
Agency Reply: Concur. See page 64.	
Establish and implement a formal management plan that defines the duties and responsibilities of each employee.	4
Agency Reply: Concur. See page 64.	
Separate the change fund duties of maintaining custody of the cash from the duties of accounting for that cash, and allow only the deputy or the Treasurer to sign checks for currency.	7
Agency Reply: Concur. See page 64.	
Periodically count the change fund and review all accounting entries affecting cash on hand.	7
Agency Reply: Concur. See page 65.	
Establish the cash change fund on an imprest basis at the minimum amount necessary to carry out projected check cashing activity.	8
Agency Reply: Concur. See page 65.	
Establish a policy requiring daily deposit of all checks cashed from the change fund.	9
Agency Reply: Concur. See page 65.	
Establish written policies and procedures to require that currency be removed from collection reports upon receipt by the cashier.	10
Agency Reply: Concur. See page 65.	

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Deposit each day's receipts intact.	10
Agency Reply: Concur. See page 65.	
Require that each change fund custodian sign for the currency for which he or she is responsible.	10
Agency Reply: Concur. See page 66.	
Require monthly reconciliation of all bank accounts and the Treasurer's clearing account.	13
Agency Reply: Concur. See page 66.	
Agree the total of subsidiary account balances to the general ledger each month.	13
Agency Reply: Concur. See page 67.	
Establish a standarized bank reconciliation format that clearly documents all reconciling items.	14
Agency Reply: Concur. See page 67.	
Insure that an appropriate supervisor reviews and approves bank reconciliations on a sample basis.	14
Agency Reply: Concur. See page 67.	
Request all banks to submit statements with a month-end cutoff.	16
Agency Reply: Concur. See page 68.	
Require monthly reconciliations of paying agent bond and coupon accounts.	17
Agency Reply: Concur. See page 68.	
Review those reconciliations, follow up discrepancies, and resolve differences between treasury and bank records.	17
Agency Reply: Concur. See page 68.	
Verify the amounts of all coupons before paying for them.	18
Agency Reply: The deputy treasurer concurs; however, she states that Helena banks will not allow coupon delivery without payment. See page 69.	

Recommendation	Page
The Department of Administration notify the Treasurer of all authorized contingent revolving bank accounts.	41
Department of Administration Reply: Concur. See page 79.	
Establish and maintain records for these accounts and include these account balances in the determination of each bank's collateralization.	41
Agency Reply: No reply.	
Deposit all drivers' license fees to the general fund upon receipt, except for 5 percent of the fees which is deposited to the credit of drivers' education.	44
Agency Reply: No reply.	
Legislation be proposed to amend Section 31-210, R.C.M. 1947, to delete the provision that highway patrolmen's retirement account payments be made from drivers' license revenue.	45
Agency Reply: No reply necessary.	
The Office of Budget and Program Planning request a separate legislative appropriation from the general fund to the Department of Justice in the amount specified in Section 31-210, R.C.M. 1947.	45
Office of Budget and Program Planning Reply: Concur. See page 82.	
Conduct an annual physical inventory of fixed assets.	46
Agency Reply: Concur. See page 76.	
Include all assets with a value exceeding $100 in the inventory.	46
Agency Reply: Concur. See page 76.	
The Department of Administration issue guidelines for all state agencies to use in maintaining complete and current personnel files.	47
Department of Administration Reply: Concur. See page 79.	

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The Treasurer require:	
1. Employees to record their own time and attendance on a standard time and attendance record.	
2. Supervisors to approve time and attendance records.	
3. Payroll personnel to base the actual payroll on time and attendance records prepared by the employees.	
4. Employees to use standard forms prepared by the Department of Administration regarding employee leave.	
5. Payroll personnel to record sick and annual leave in compliance with Sections 59-1001 and 59-1008, R.C.M. 1947.	
6. Payroll personnel to identify emergency sick leave in the leave records.	49

Agency Reply: Concur. See page 77.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
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STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Statement of Cash Position, Treasurer's Cash Accountability Account of the Office of the State Treasurer as of June 30, 1976. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs. We did not test the balances presented for investments. These investments were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to those investments is based solely upon the report of the other auditors.

The Treasurer's Cash Accountability Account is a self-balancing set of accounts which records the Treasurer's responsibility for certain state resources. The resources include all cash deposited with the Treasurer or with banks to the credit of the State Treasurer; all investments made by the Board of Investments from surplus treasury cash; and money advanced to paying agents for redemption of certain bonds. These resources are balanced by the Treasurer's Accountability for Cash in the Treasury and the Treasurer's Accountability for Outstanding Warrants. The statement does not include state money or investments

not deposited to the credit of or held by the Treasurer; nor does it include any other state resources, receivables, liabilities or claims against state money.

The Statement of Cash Position, Treasurer's Cash Accountability Account is not accompanied by statements of revenue, expenditure, or statement of changes in fund balance since it reports only specific resources and the accountability for these resources at June 30, 1976. Revenue, expense and changes in fund balances are reported in the statements of state agencies which collect revenue or authorize expenditures.

As discussed below and in greater detail in this report beginning on page 4, the Statement of Cash Position, Treasurer's Cash Accountability Account contains account balances that are materially misstated.

The Treasurer did not record changes in cash on hand in the general ledger; as a result, the actual balance of $21,450 is understated by $18,450. The statement of cash position reports a cash in demand account balance of $21,352,948. The actual balance is $20,176,553. Therefore, cash in demand accounts is overstated by $1,176,395.

The statement reports a deficit in cash in the U.S. Treasury of ($1,466,864). The actual balance in the U.S. Treasury was $1,590,500. This resulted from incorrect coding of two accounting documents in May 1975. Therefore, cash in the U.S. Treasury is understated by $3,057,364.

The statement reports $1,980,338 cash advanced to banks for purchasing bonds and bond coupons. The actual balance was $547,893. Therefore, the purchase bond and coupon clearing account is overstated by $1,432,445.

The statement reports accountability for outstanding warrants of $21,220,009. The actual balance was approximately $19,200,000. Due to the condition of the records we could not determine the exact amount of error; however, the balance is overstated by approximately $2 million at June 30, 1976.

The statement reports an inter-entity transfers clearing balance of negative ($1,089,398). This balance should always be zero; consequently, the account contains errors in that amount.

With the exception of cash in the U.S. Treasury and cash on hand, we could not determine the reasons for the misstatements.

In our opinion, because of the material nature of the matters discussed in the preceding paragraphs, the Statement of Cash Position, Treasurer's Cash Accountability Account does not fairly present the resources or accountability which that statement purports to present at June 30, 1976.

Respectfully submitted,

Morris L. Brusett, C.P.A.
Legislative Auditor

October 1, 1976

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
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The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Office of the State Treasurer as of June 30, 1976, and the related statements of revenue compared to revenue estimates, expenditures compared to appropriations, expenditures by object, and changes in fund balances, for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Office of the State Treasurer has not maintained a record of its general fixed assets and accordingly a statement of general fixed assets required by generally accepted accounting principles is not included in the financial report.

In our opinion the aforementioned financial statements present fairly the financial position of the Office of the State Treasurer as of June 30, 1976, and the results of its operations and changes in fund balances for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

October 1, 1976

COMMENTS

GENERAL

Article VII, section 1, Constitution of the State of Montana, 1889, placed the office of the State Treasurer under the executive branch of government of the state of Montana. The State Treasurer was elected to a four year term, and was prohibited from serving consecutive terms.

Pursuant to the Executive Reorganization Act of 1971 the State Treasurer's office was attached to the Department of Administration for administrative purposes. Under the Executive Reorganization Act of 1971, the Treasurer exercised policy making functions independent of the department and without approval or control of the department.

The Constitution of the State of Montana, as adopted by the Constitutional Convention March 22, 1972, and ratified June 6, 1972, no longer states that the State Treasurer is an elective office. The Attorney General has ruled that the deputy treasurer, with the assistance of the Department of Administration, must perform all existing statutory functions and duties of the former office of the Treasurer until an alternative statutory framework is provided by the legislature for the performance of the duties of the office of the Treasurer.

During the fiscal year ending June 30, 1976, the Treasurer's office employed eight individuals in addition to the State Treasurer. The eight employees include the deputy treasurer and seven staff members. These employees perform the following functions assigned to the Treasurer's office: (1) providing custody of all moneys and securities of the state unless otherwise expressly provided by law; (2) insuring that state moneys are adequately collateralized; (3) receiving and accounting for all moneys belonging to the state.

Our audit revealed significant accounting errors and management weaknesses in the Treasurer's office. We discuss our findings and recommendations in the following report.

MANAGEMENT WEAKNESSES

The State Treasurer's duties of safeguarding and accounting for all state money represent an important link in the state's financial procedures. The Treasurer has not adequately performed these duties. The Treasurer has not developed a management plan or an effective organization to perform all statutory treasury requirements or an adequate system of management controls to safeguard assets and insure accountability for the state's cash.

Because the Treasurer has not implemented policies and procedures to effectively organize and control various treasury functions, serious weaknesses exist in the management of the office cash fund, document files, collateralization of bank depositories, general ledger accountability, and office administration.

We also found a lack of day to day leadership in the Treasurer's office. The office has been left without the leadership of either the Treasurer or the deputy for periods of up to one week. In the absence of these officials, no one was authorized to conduct many of the state's cash management activities. The state went without management of its treasury during such absences. Daily treasury activity involves millions of dollars and transactions with up to 150 banks. Effective treasury management can only be achieved by managing the office on a full-time basis.

As a part of the Treasurer's responsibility for safeguarding cash, she must insure that all state bank accounts in her control are reconciled

on a timely basis. As discussed on page 11 of this report, some bank accounts were not reconciled, and others were incorrectly reconciled. Bank reconciliations are a critically important part of the Treasurer's operation. They provide the only means to detect certain types of recordkeeping or bank errors. These reconciliations should be done in a routine manner every month. Instead, we found that standard procedures had not been implemented and that reconciliations were not done for all banks. Other reconciliations contained errors which were not investigated for almost a year. None of the reconciliations was reviewed by the Treasurer or the deputy.

Lack of control and inadequate procedures for reconciliation of bank accounts are indicative of the management problems disclosed during our audit. These problems, and similar problems with other treasury functions, were so severe as to result in a significant loss of control over the state's cash. Errors and omissions have accumulated in the Treasurer's records amounting to over $2.5 million in cash misstatements alone. Other accounts for which the Treasurer is responsible contain similar misstatements.

Throughout this report, we make recommendations to correct specific problems disclosed during our audit. However, these recommendations will not be effective unless the Treasurer's office establishes an effective plan of management and operation. The Treasurer should establish clear objectives and a formal management plan designed to meet the statutory requirements of the office. The management plan should clearly define the duties and responsibilities of each employee as well as establish a system of controls to provide accountability for the state's cash.

RECOMMENDATION

We recommend that the Treasurer:

1. *Establish treasury objectives which meet the statutory requirements of the office as the basis for a treasury management plan.*
2. *Establish and implement a formal management plan that defines the duties and responsibilities of each employee.*

TREASURER'S CASH ACCOUNTABILITY

The Treasurer performs the central banking function for state agencies, boards and elected officials. All transactions relating to this treasury function are recorded in a separate accounting entity called the Treasurer's Cash Accountability Account. The Treasurer may initiate entries in this account; however, about 90 percent of the financial transactions are made automatically by computer programs. For example, when a state agency receives tax revenues and deposits the money with the State Treasurer, an accounting entry increases cash in a treasury account such as the general fund, and records the revenue in that account. The computer generated entry in the Treasurer's Cash Accountability Account automatically records an increase in cash in demand accounts (in the bank) and increases the accountability for cash in the treasury.

When an agency spends money, the accounting entry records an expenditure and an associated reduction of cash in an accounting entity. At this point, no state cash has actually been expended; however, a state warrant is issued. A warrant is a sight draft on the Treasurer's office. It differs from a check in that no funds need be available in a

demand account. Instead, the Treasurer's office writes a check each day purchasing warrants which are presented by the bank.

An expenditure by a state agency also creates an automatic entry in the Treasurer's Cash Accountability Account. The Treasurer's accountability for cash is reduced, with a corresponding increase in the Treasurer's accountability for outstanding warrants. When warrants are presented to the State Treasurer for payment, the Treasurer prepares an entry which reduces Accountability for Outstanding Warrants and a corresponding reduction of cash in the bank.

The purchased bond and coupon clearing account represents money advanced to banks which act as paying agents for state and municipal bonds. Increases to this account occur when the Treasurer transfers money to the paying agent. Reductions occur when the paying agent returns the cancelled bonds and coupons.

The Treasurer's records are maintained on the Statewide Budgeting and Accounting System (SBAS). In addition, the Treasurer maintains a hand posted set of records. The hand posted records do not reconcile to SBAS, nor do they appear to serve any useful purpose. They are a carry-over from records maintained prior to implementation of SBAS.

The Treasurer's Cash Accountability Account, presented on page 51 of this report, contains material errors. It was necessary for us to reconstruct balances of some of these accounts, considerably increasing the time and expense required to perform the audit. The error in each account balance, as well as other problems disclosed by our audit, are discussed in the following report sections.

CASH ON HAND

Internal Control Over Cash on Hand

The Treasurer maintains a cash change fund at the Treasurer's office to cash state warrants and state employees' personal checks. The Treasurer does not adequately safeguard or control this change fund, nor is there adequate separation of duties regarding change fund transactions.

The cashier alone controls the actual currency, writes and signs checks for currency to replenish the fund, deposits warrants and checks cashed from the fund, makes the accounting entries for the change fund and reconciles the bank accounts from which change fund transactions occur. The cashier maintains the only summary record of change fund transactions that exists, and this book is maintained in pencil. Neither the Treasurer nor the deputy reviews the cash book entries to determine if they, in fact, represent actual change fund transactions and balances. Allowing one employee total control of all change fund activities without supervisory review constitutes a serious system weakness. Because the activity in this change fund totals more than $500,000 annually, this weakness is particularly significant.

Proper internal control requires that custody of assets and accounting for assets be performed by separate individuals. Without this separation one employee could misuse state money and prepare accounting entries to conceal that misuse. The Treasurer or the deputy should also periodically count the cash change funds and review all accounting entries affecting cash on hand.

RECOMMENDATION

We recommend that the Treasurer:

1. *Separate the change fund duties of maintaining custody of the cash from the duties of accounting for that cash, and allow only the deputy or the Treasurer to sign checks for currency.*
2. *Periodically count the change fund and review all accounting entries affecting cash on hand.*

Excessive Change Fund Balances

The Treasurer does not systematically determine the amount of change fund cash necessary to carry out the daily check cashing activity of the office. We found that the change fund average daily balance was $33,971 during fiscal year 1975-76, and that it reached a high balance of $66,894 on one day during that year. During the last three months of fiscal year 1975-76, the largest dollar amount of checks cashed from the change fund during any day was $10,562.

Each payday the Treasurer's office cashes from $2,000 to $12,000 of checks, while non-payday cashed checks seldom amount to more than $2,000 per day. Daily change fund balances appear excessive when compared to the actual change required to cash warrants and checks. The Treasurer should reduce the cash change fund and maintain only adequate change for daily check-cashing activity. The change fund should be maintained on an imprest basis and replenished each day for the amount of checks cashed from the fund, unless the Treasurer adjusts the fund. This imprest change fund should be recorded in a separate account as cash on hand. The Treasurer should adjust the change fund balance whenever

significant changes in check cashing activity are anticipated, such as on paydays or during the legislative session.

We determined through a review of past change fund activity that the Treasurer can accomplish the warrant and check cashing functions at current activity levels with a change fund balance of $10,000 on non-paydays and $20,000 on paydays. By reducing the change fund to the minimum necessary to conduct check cashing activity, the Treasurer can reduce the fiscal year 1975-76 average daily balance of nearly $34,000 by approximately $20,000. By investing this $20,000 the state could earn approximately $1,400 in interest income each year.

RECOMMENDATION

We recommend that the Treasurer establish the cash change fund on an imprest basis at the minimum amount necessary to carry out projected check cashing activity.

Employee Check Cashing

During counts of the Treasurer's change fund we observed that Treasurer's employees' personal checks were withheld from deposit. We also found employees' postdated checks in the cash drawers. We could not determine the frequency of this practice. These checks represented loans to the employees because the employees had received currency, and these checks either were not or could not be drawn on the payees' bank accounts in return for the currency.

The Treasurer should establish a written policy concerning check cashing. Checks written by employees of the Treasurer's office should be deposited daily, and the cashier should not accept post dated checks.

The Treasurer should periodically count cash on hand to ensure compliance with this policy.

RECOMMENDATION

We recommend that the Treasurer establish a policy requiring daily deposit of all checks cashed from the change fund.

Currency Receipts

The Treasurer does not adequately control currency received with collection reports. For some collection reports with currency attached, the cashier keeps the currency and sends the collection clerk a slip of paper acknowledging receipt of the money. For others, the currency remains attached to the report. Currency often remains attached to collection reports as employees process them. This procedure results in increased risk of loss and unnecessary duplication of effort by Treasurer's employees.

Cashiers receive and count currency coming into the office and then initial the currency amount on the treasury deposit ticket. The collection reports are then placed in a basket until the collection accountant processes them. This accountant then processes the reports and vouches the amount of each report to the remittance. The clerk must recount the currency attached to each collection report to insure that the correct amount of currency is still attached. The collection report accountant stated that she did not have adequate facilities to safeguard the currency at her desk and that she often had to leave currency unsecured when she was away from her desk.

The Treasurer should institute policies and procedures to insure that cashiers remove all currency from collection reports upon receipt

and attach signed, prenumbered vouchers to each collection report acknowledging receipt of that currency. At the end of each work day the accountant should determine from each cashier the voucher amounts of currency and prepare a bank deposit for that currency. The Treasurer should deposit each day's receipts, including currency and checks, intact.

RECOMMENDATION

We recommend that the Treasurer:

1. *Establish written policies and procedures to require that currency be removed from collection reports upon receipt by the cashier.*
2. *Deposit each day's receipts intact.*

Signing for Cash

The Treasurer does not require the cashier or assistant cashiers to sign for the currency for which each is responsible. Requiring change fund custodians to sign for cash clearly defines the responsibility for the currency and provides documentation that the custodian has acknowledged receipt of a specific amount of change.

RECOMMENDATION

We recommend that the Treasurer require that each change fund custodian sign for the currency for which he or she is responsible.

CASH IN DEMAND ACCOUNTS

The Treasurer's general ledger reports cash in demand accounts of $21,352,948 at June 30, 1976. The actual balance of $20,176,553 resulted in an overstatement of cash in demand accounts of $1,176,395. We did

not determine the cause of this error; however, staff from this office, the Department of Administration and the Treasurer's office have been attempting to determine the cause of the error.

The error may stem from 1972 when the Treasurer's records were first placed on the Statewide Budgeting and Accounting System (SBAS). In addition, failure to reconcile all bank accounts and other internal control weaknesses may have allowed errors accumulated since 1972 to remain undetected.

Bank Reconciliations

The Treasurer's general ledger account for cash in demand accounts represents the combined balances for 157 accounts in 150 depository banks. Although Treasurer's office employees reconcile some of the individual depository bank statements on a monthly basis, no one reconciles all of the bank accounts included in the total of cash in demand accounts. Treasurer's office employees reconcile 151 bank accounts to the subsidiary detail ledger for cash in demand accounts, but they do not reconcile the two largest accounts or four Employment Security Division accounts.

During fiscal year 1975-76 the Treasurer's office failed to reconcile the single Helena clearing bank. The Helena clearing bank is the bank that: clears all state warrants, receives all money from other state depository banks, clears investment sales and purchases, and receives and processes all receipts deposited with the Treasurer. This bank performs the majority of all state banking transactions.

The Treasurer's office also failed to reconcile the treasury clearing account. This account records the collections which have not been deposited in a bank but which are received by the Treasurer directly from state agencies.

In addition, the Treasurer's office did not reconcile the four Employment Security Division bank accounts to its records.

At June 30, 1976, the combined balances of unreconciled demand accounts equaled 81 percent of total cash in demand accounts reported in the Treasurer's cash accountability general ledger. Although the Treasurer's office reconciles 151 of the 157 accounts, those accounts represent only 19 percent of the Treasurer's reported cash in demand accounts.

The Treasurer's office has not identified or corrected errors of $877 between the general ledger cash in demand account balance and the subsidiary ledger that supports that balance. Treasurer's office employees stated that they had not attempted to agree the subsidiary ledger total to the general ledger account balance; therefore, they had not noticed the difference. To properly reconcile and account for cash in demand accounts, each subsidiary account must be reconciled, and the total of all subsidiary book balances must be agreed to the general ledger each month.

Because the Treasurer's office has not reconciled cash in demand accounts, errors have accumulated in the individual accounts. On June 30, 1976, for example, the Treasurer's subsidiary ledger overstated the Treasurer's clearing account balance by $8,348,406. On that same date the subsidiary ledger understated the Helena clearing bank balance by $7,172,751.

The normal procedure for eliminating errors in the Treasurer's clearing bank has been to "plug" the bank errors from the Treasurer's clearing account on the assumption that the errors occurred through improper transfer entries from the clearing account to the Helena

clearing bank. This assumption fails to account for both bank errors and Treasurer's book errors. The plugging procedure only moves errors from the bank to the clearing account without correcting them.

Because the Treasurer's office does not reconcile the clearing bank or the Treasurer's clearing account properly each month, errors made by the bank, or by state agencies' issuing duplicate collection reports are not identified or corrected.

Considering the large number of errors detected and corrected through the reconciliation of 151 demand accounts each month, it is unreasonable for the Treasurer to ignore the possibility of the Helena clearing bank's making errors or state agencies' making accounting errors for their deposits.

RECOMMENDATION

We recommend that the Treasurer:

1. *Require monthly reconciliation of all bank accounts and the Treasurer's clearing account.*
2. *Agree the total of subsidiary account balances to the general ledger each month.*

Review of Reconciliations

The Treasurer does not review bank reconciliations to determine if they are properly prepared. During our audit we found bank reconciliations that contained problems that should have been detected by management review. Examples of these problems include:

--Bank statements improperly reconciled for periods of over one year.

--Reconciliations which contained plug figures.

--Errors used as reconciling items for up to eleven months without correction.

--Bank statements that treasury employees had made no attempt to reconcile.

Reconciliations of bank statements, when complete, consisted of numbers written on the statements with no explanations or any indication of what each number represented. An example of a bank reconciliation is contained in Appendix A. The poor condition of the reconciliations required Treasurer's office employees and our office's auditors to reconstruct most of them before we could perform our audit. Reconstructing bank reconciliations and locating missing or misfiled bank statements substantially increased the time and expense required to complete our audit.

The Treasurer should implement a standard bank reconciliation format that will allow review of the reconciliations without reconstructing them. Standard reconciliations with explanations for reconciling items would provide the Treasurer a means of reviewing reconciliations to determine proper preparation. Complete reconciliation of all cash accounts on a monthly basis provides the only method of proving total recorded cash.

RECOMMENDATION

We recommend that the Treasurer:

1. *Establish a standardized bank reconciliation format that clearly documents all reconciling items.*
2. *Insure that an appropriate supervisor reviews and approves bank reconciliations on a sample basis.*

Employment Security Division Accounts

The Treasurer's cash in demand account general ledger balance includes four Employment Security Division accounts that the Treasurer's office neither reconciles nor controls. The Treasurer does not receive the bank statements or write checks on these accounts. Therefore, the Treasurer cannot reconcile the accounts but must rely upon the Employment Security Division for account balances.

Our Department of Labor and Industry Employment Security Division (ESD) audit report for the fiscal year ended June 30, 1975, addressed the internal control, duplication of duties, and foregone interest income problems associated with these bank accounts, and it presented recommendations to correct those problems.

At June 30, 1976, the Treasurer's general ledger presented a negative balance of cash with the U.S. Treasury of $1,466,864. The actual balance was a positive $1,590,500, resulting in an understatement of $3,057,364. This error was caused by coding errors on documents prepared by ESD. The documents, processed during May 1976, omitted the proper coding to record a cash transfer on the Treasurer's records. The error was corrected in July 1976.

Other Bank Statements

Each month the Treasurer receives over 150 bank statements. The employee performing reconciliations of these bank statements should not receive or disburse cash or make accounting entries.

The employee performing each reconciliation agrees the bank statement to the month-end book balance in the cash subsidiary ledger. Most bank statements are prepared at month-end; however, some banks issue statements at interim dates. When this happens, all transactions subsequent to the

statement cutoff date become reconciling items, thereby considerably increasing the amount of time required to reconcile the bank statements.

During our audit the Treasurer requested that all banks submit month-end bank statements; however, some banks failed to comply. Since a convenient statement date is a legitimate request by a bank customer, the Treasurer should again request month-end statements. The Treasurer should request that the Board of Investments close accounts in banks that do not comply.

RECOMMENDATION

We recommend that the Treasurer request all banks to submit statements with a month-end cutoff.

PURCHASED BONDS AND COUPON CLEARING

The general ledger presented a balance of $1,980,338 in the purchased bonds and coupon clearing account at June 30, 1976. The actual balance held by various banks was $547,893, resulting in an overstatement of $1,432,445. As with cash in demand accounts, we could not determine the cause of this error; however, work is continuing to determine the reason for the overstatement. Since the Treasurer never reconciled to the general ledger amounts held by various banks as paying agents, the difference may be the result of accumulated errors since 1972.

Monthly Reconciliations

The Treasurer's records reflected a $17,128 balance for Montana Veterans' Compensation Bonds WWI in the Bank of California bond and coupon account, while the bank has reported a zero balance in this account since August 14, 1972. Although the bank had reported the payment of the coupons on the bank statements it sent the Treasurer, she

continued reporting them as outstanding for four years without investigating the difference between her records and the bank's records.

The Treasurer investigated the $17,128 discrepancy after our auditors notified her that the bank had reduced the bond and coupon account, but no purchased coupons had been recorded in her records for that cash disbursement. The bank acknowledged that it had paid for the coupons in 1972 and had been awaiting instructions from the Treasurer before remitting the coupons.

The Treasurer should require monthly reconciliations of bank statements for paying agent bank accounts, review those reconciliations, and follow up discrepancies between her records and bank statements.

RECOMMENDATION

We recommend that the Treasurer:

1. *Require monthly reconciliations of paying agent bond and coupon accounts.*
2. *Review those reconciliations, follow up discrepancies, and resolve differences between treasury and bank records.*

Payment Before Verification

The Treasurer receives bonds and coupons purchased by other than paying agent banks and pays the banks for the coupons before the coupon amounts are verified. Treasurer's office employees rely only upon the totals typed on coupon envelopes to write checks for payment of those coupons. The employees stated that the practice of paying for the coupons before they are verified often results in under or overpayment and problems in correcting these errors.

The Treasurer should not pay for coupons until those coupons are verified.

RECOMMENDATION

We recommend that the Treasurer verify the amounts of all coupons before paying for them.

Excess Cash Balances

Excessive cash lies idle in paying agent banks because the State Treasurer uses no system to determine the exact amount due and payable when advances are made for bond and coupon redemption payments.

The Treasurer maintains a consistent balance of approximately $200,000 in a New York bank bond and coupon account. The Treasurer does not know how much of this balance is necessary to pay for outstanding bonds and coupons, because she neither computes the amount payable nor reduces the amount of cash advanced for coupons redeemed directly at her office. The deputy treasurer stated that she does not think it is necessary to precisely compute the necessary payment. The state foregoes an undeterminable amount of interest revenue from the excess cash balance maintained in the New York bank.

In August 1971, the Treasurer disbursed $16,073.75 more than necessary for matured bonds and coupons to a Helena bank and allowed this money to remain idle in that account until December 1975. At a conservative 5.5 percent rate, this idle cash represents lost interest amounting to over $3,800.

The practice of advancing excessive cash to paying agent banks displays poor cash management by the Treasurer. Excessive balances in these accounts result in significant amounts of lost interest revenue.

RECOMMENDATION

We recommend that the Treasurer:

1. *Compute the total amount of bonds and coupons payable at each maturity date and send paying agents only that amount.*
2. *Reduce paying agent cash balances for matured bonds and coupons purchased directly at her office.*
3. *Maintain a balance in each paying agent bank equal only to outstanding matured bonds and coupons.*

Subsidiary Ledgers

The general ledger balance for the Purchased Bond and Coupon Account is not supported by a subsidiary ledger. The Treasurer does maintain a hand posted set of subsidiary records, but these do not agree to the general ledger, nor are they useful in detecting errors in transactions.

Although this account is referred to as a clearing account, the balance represents a very real state asset--cash deposited with banks which act as paying agents for the state. A minimum requirement to control the balances in this account is a subsidiary ledger listing balances at each bank for each bond issue. The Treasurer should reconcile the subsidiary to the general ledger each month and investigate any differences.

RECOMMENDATION

We recommend that the Treasurer maintain subsidiary ledgers to support the balance in the Purchased Bond and Coupon Clearing Account.

ACCOUNTABILITY FOR OUTSTANDING WARRANTS

The Treasurer's general ledger reports a balance in accountability for outstanding warrants of $21,220,009 at June 30, 1976. The actual balance of approximately $19,200,000 results in an overstatement of approximately $2 million. We did not determine the reason for this misstatement; however, we are continuing our review to determine the cause of the error.

Responsibility for Outstanding Warrants

The responsibility for accounting for state warrants rests with two state agencies. The State Auditor's office issues all state warrants and maintains computer and hand records which list all outstanding warrants. The records maintained by the State Auditor's office are adequate to allow the State Auditor to fulfill his responsibilities; however, the State Auditor's records have not been integrated into the Statewide Budgeting and Accounting System.

Although the State Auditor must maintain certain records to manage the warrant issuing system, the primary accounting responsibility rests with the State Treasurer. The Treasurer's Cash Accountability Account provides a balanced set of accounts which control cash in the treasury, cash in the bank, all investments, and claims against cash in the form of outstanding warrants. The key accounting control over state cash rests with the Treasurer's office. The Treasurer, however, has established no control over the balance for outstanding warrants, an account just as significant as cash in the bank.

The problem largely results from dual systems maintained by the State Auditor's office and the Statewide Budgeting and Accounting System, and the lack of coordination between those systems. Although the staff

in the State Auditor's office reconciles warrants issued and warrants cashed to their records, there is no assurance that the correct information is reflected on SBAS. The State Auditor's office does not reconcile their records to SBAS, nor does the Treasurer's office reconcile their records to those of the State Auditor.

The Department of Administration should take steps to integrate the accounting system of the State Auditor's office with the accounting system of the Treasurer's Cash Accountability Account. Currently, when the State Auditor issues warrants, a computer tape of outstanding warrants is updated. However, SBAS is not updated until the Auditor's office prepares a separate input document. The same procedure is true when warrants are presented for payment, except the Treasurer issues a separate document.

Maintaining dual systems not only creates extra effort and expense, it almost certainly accounts for a portion of the errors in the outstanding warrant account. The functions of issuing and purchasing state warrants are done daily. Recording these functions should automatically create in SBAS accounting entries reflecting the actual transactions. The Department of Administration should work with the Treasurer and the State Auditor to develop a system which provides the agencies the information they require without duplication of effort.

RECOMMENDATION

We recommend that the Department of Administration work with the Treasurer and the State Auditor to develop procedures to account for outstanding warrants and eliminate the present duplication.

Reconciliation of Outstanding Warrants

We were unable to determine the exact amount of the error in the balance of outstanding warrants, largely because of the lack of coordination between the systems which account for issuance and purchase of warrants. In addition, the Treasurer's office has never attempted to agree the balance of outstanding warrants to their general ledger. Under the current system, such a reconciliation is extremely difficult and time consuming. Coordinating SBAS and the State Auditor's office systems should include development of a subsidiary ledger which agrees to the general ledger and provides for easy reconciliation.

RECOMMENDATION

1. *We recommend that the Department of Administration work with the Treasurer and the State Auditor to develop a reconcilable subsidiary to the general ledger for outstanding warrants.*
2. *We recommend that the Treasurer reconcile outstanding warrants to her general ledger on a monthly basis.*

CASH ACCOUNTABILITY INTERNAL CONTROL

Internal control provides for both physical and procedural safeguards to reduce the risk of asset loss and to detect errors or fraud on a timely basis. Because the Treasurer has not implemented segregation of duties, written policies and procedures, or an adequate system of office supervision and review, adequate cash internal control does not exist in her office.

We realize that the Treasurer's small staff size prevents ideal separation of duties; however, even with a small staff the Treasurer can establish an adequate internal control system.

One of the serious control deficiencies we noted during our audit concerned the cashier (see page 6). Because both the Treasurer and the deputy are often out of the office for extended periods of time, the cashier operates the office in their absence.

The state treasury should have a manager in the office during normal working hours to perform management functions, such as signing checks, approving accounting documents and reviewing the various office functions to provide adequate direction and control. These management duties should not be delegated to the office cashier who acts as the custodian of cash. The Treasurer should either provide full-time management to the office by requiring the deputy or another designee to manage the office in the absence of the Treasurer.

RECOMMENDATION

We recommend that the Treasurer establish a system of full-time office management and discontinue the delegation of management authority and responsibility to the cashier.

Unused Treasury Checks

The Treasurer keeps the blank checks used for bank drawdown and currency replenishment in the check registers. Those registers circulate among several Treasurer's office employees during each work day. The Treasurer can strengthen control over unused checks by securing them and making them accessible only to those employees authorized to sign them.

The Treasurer should establish written policies clearly defining the responsibility for and authority over treasury checks.

RECOMMENDATION

We recommend that the Treasurer establish written policies and procedures limiting access to and the use of unused checks to only those employees authorized to sign the checks.

Authorized Check Signers

The Treasurer does not adequately control each depository bank's list of authorized check signers. We received lists of authorized check signers for the Treasurer's demand account from each of the 150 Treasurer's depositories. Eleven of the depository banks listed terminated Treasurer's office employees or other state employees as authorized check signers.

During our audit we noted a drawdown check signed by Hollis G. Connors, State Treasurer, that a depository bank returned. The bank indicated that the signature was not an authorized signature for the State Treasurer's demand account.

These situations indicate that the Treasurer has not provided depository banks adequate formal notification of current authorized check signers. Because unauthorized check signers remain recorded as authorized check signers in depository banks, those check signers could write checks on the Treasurer's account.

The deputy stated that she had sent a letter notifying each depository bank of the authorized check signers when the current Treasurer assumed office in January 1973, but she was unable to locate a copy of that letter in her files. Without proof of such notification, the state would have to absorb the losses from unauthorized disbursements.

RECOMMENDATION

We recommend that the Treasurer:

1. *Establish written procedures to formally notify all depository banks of current, authorized check signers.*
2. *Maintain an adequate record that banks have been notified when authorized check signers change.*

Deposit Delays

The Treasurer receives Concentrated Employment Training Act (CETA) checks from the Employment Security Division (ESD) of the Department of Labor and Industry each month. These CETA checks are payable to individual state agencies, and the Treasurer holds the checks until the agencies submit collection reports for them. The Treasurer's collection report accountant held one check for $1,004 at her desk for a month without depositing it because the agency failed to submit a collection report. The accountant did not restrictively endorse the check until the collection report arrived at the Treasurer's office.

The purpose of delivering the checks directly to the Treasurer rather than each state agency is to provide for immediate bank deposit and subsequent investment of the money. The Treasurer, by withholding the checks from deposit until agencies send collection reports, defeats that plan and costs the state money in the form of lost interest. Upon receipt, the Treasurer should restrictively endorse and deposit all checks in the clearing bank to maximize the amount of money the state can invest. Evidence of the deposit, a validated deposit ticket, would provide adequate collection report support when the Treasurer receives the report.

RECOMMENDATION

We recommend that the Treasurer:

1. *Restrictively endorse all checks when they are received.*
2. *Deposit all checks upon receipt.*

Daily Deposit of Cash

The Treasurer receives collection reports and cash throughout each day. Treasurer's office employees process the collection reports and subsequently deposit the cash. Presently, the Treasurer's office discontinues processing collection reports at 3:00 p.m. each day so the information and cash can be summarized for deposit. This allows the employee preparing this information to go home at 4:00 p.m. The Treasurer deposits the cash for the processed collection reports the following morning between 9:00 and 11:00 a.m. Deposits must be made by noon each day to assure credit to the Treasurer's account on that day.

This procedure results in a two day lag in depositing much of the cash which the Treasurer receives after 3:00 p.m. each day. The Treasurer does deposit cash from a few large agencies which bring cash in after 3:00 p.m.; however, she allows the cash received from other agencies to be processed with the next day's receipts.

The small deposits from numerous agencies after 3:00 p.m. each day represent a significant amount of money and resultant lost interest over an extended period of time. We believe that the advantage of allowing one employee to work from 7:30 to 4:00 p.m. does not justify the lost interest to the state from the lag in depositing the cash received between 3:00 and 5:00 p.m.

The Treasurer's office should continue processing collection reports through 5:00 p.m. each day. Collections could be summarized and prepared

for deposit the following morning before the Treasurer makes the daily bank deposit.

RECOMMENDATION

We recommend that the Treasurer deposit all receipts in the bank no later than noon on the business day following receipt.

COLLECTION REPORT DELAYS

State agencies do not submit timely collection reports for deposits to Treasurer's demand accounts. The collection report is a document that records, on SBAS, cash increases for state agencies and for the state treasury. We found that the time lag between the actual bank deposit and the recording of that deposit on the state's books is often three to four weeks.

This problem is significant because the Treasurer uses SBAS to draw down banks, and the bank balances as presented by SBAS are millions of dollars behind actual bank deposit balances due to collection report delays. Our discussion of excessive bank balances on page 29 of this report provides additional evidence of the significance of collection report delays. The Treasurer should consult with the Department of Administration and work to reduce these delays.

RECOMMENDATION

We recommend that the Treasurer and the Department of Administration implement procedures to achieve timely submission of collection reports.

EXCESSIVE DEMAND DEPOSIT BALANCES

The State Treasurer maintains excessively large deposits in 150 state depository banks. This costs the state of Montana at least $435,000 each year in lost interest. This problem of foregone interest on excessive, idle demand account balances has been discussed at length in the fiscal year 1971-72, 1974-75 and 1975-76 audit reports on the Board of Investments. Corrective action has been recommended in these reports; however, the problem still exists. Because the Treasurer has withheld this cash from investment, estimated yearly interest losses have gone from $100,000 to $200,000 in fiscal year 1971-72 to over $427,000 estimated interest lost in fiscal year 1974-75.

When we project estimated lost interest income for the last five fiscal years, it appears the state has lost at least $1 million in foregone interest income. This loss is directly attributable to the Treasurer's and the Board of Investments' failure to draw down excessive demand deposits as recommended in prior audit reports. The Treasurer has made no significant improvement in drawdown procedures or reductions in excessive demand account balances during fiscal year 1975-76.

The Board of Investments set a total maximum balance to be held in banks outside of Helena at $700,000 after a 1972 limited study for determining compensating balances. The average daily balance in these banks for September, October and November, 1975, was $5,697,900.

Banks Outside of Helena

In a letter dated September 2, 1976, the Board of Investments formally reaffirmed its policy that the Treasurer should maintain no more than $700,000 in demand deposits outside of Helena. The Treasurer responded that the Board had the Treasurer's full cooperation in maintaining

the lowest level possible in outside demand deposits. The Treasurer also stated in her response to the Board that "drawdowns on all outside banks are made on an average of twice a week."

We reviewed the September and October 1976 mid-month and month-end bank balances and found that the outside banks had average demand deposits of $5,617,000 and $6,097,000 during those two months. These balances confirm that no significant reduction in excessive demand account balances has occurred.

We reviewed the drawdown book for the period August through October 1976 to determine how often banks are being drawn down. All banks are not being drawn down on an average of twice a week. During the 13 weeks reviewed, the Treasurer drew down an average of 47 banks each week. The records also showed that the Treasurer drew down banks twice each week during six of the 13 weeks; however, the Treasurer drew down banks only once each week during another six weeks and did not draw down any banks during one week.

The Treasurer uses a SBAS ledger to determine the amount of cash in individual depository banks for adequate collateralization and bank drawdown. As discussed on page 27, the balances in this report are not adequate for either purpose, because a week's delay often transpires between the day of deposit and the day the Treasurer receives a SBAS ledger with that transaction included in the bank's balance. The Treasurer further compounds the drawdown delay by writing checks on the Helena clearing bank to draw down the outside banks. These checks often take up to five days to clear the bank. Cash cannot be invested until after the check has cleared.

On April 23, 1976, the Treasurer drew down a Billings bank by writing a check for $23,000 based upon the $25,000 balance reported on that day's SBAS ledger for that bank. Although the deputy treasurer maintains she drew the bank down to a $2,000 balance, the bank's actual balance was $89,000 on April 23. The balance had reached $188,400 when the $23,000 check cleared the bank five days later on April 28, 1976. On April 7 this bank balance reached $680,000 and was drawn down by $132,000. Similarly, the deputy had drawn the bank down to $2,000 according to the SBAS printout.

In our audit report on the Board of Investments issued in July 1976, we stated that the state currently loses $375,000, or over $1,000 per day, because the Treasurer allows excessive demand deposits in 147 state depositories outside of Helena.

Because neither the Treasurer, the Board of Investments nor the Department of Administration has taken action to implement the recommendations presented in our Board of Investments report, the state continues to lose over $1,000 per day in foregone interest income. This loss amounts to more than $150,000 for the period August through December 1976. This loss will continue to increase until the Treasurer acts to reduce excessive demand account balances.

The Treasurer stated that the excessive demand account balances are not her fault but are the fault of the SBAS system. Although the SBAS printout lags two days behind the Treasurer's processing of collection reports, this two-day time lag represents only a minor portion of the total drawdown system lag. Up to two weeks often passes between an actual bank deposit and the Treasurer's drawdown check clearing the bank to transfer that deposit to the clearing bank. The responsibility for

timely drawdown of outside banks lies with the Treasurer, not with the SBAS system. The Treasurer should immediately institute a system to draw demand accounts to the limit of $700,000 set by the Board of Investments.

The Treasurer should provide leadership in establishing the automatic wire transfer of excessive demand account balances, as recommended in our fiscal year 1974-75 audit report on the Board of Investments. While implementing the automatic drawdown system, the Treasurer can and should take immediate steps to reduce excess demand deposits.

Based upon the average daily balances in outside banks for the months September, October and November, 1975, we determined that 21 banks held 69 percent and 50 banks held 83 percent of the total $5,697,900 average daily balance in outside banks. The Treasurer could call these large deposit banks daily and wire transfer the excess above the compensating balances to the clearing bank. The balances in the other 100 outside banks could be reduced by weekly calls and drawdowns, based upon actual collected balances. These measures are justified in view of the fact that the state is losing $1,000 per day in lost interest.

RECOMMENDATION

We recommend that the Treasurer establish an automatic method of transferring money in depository bank accounts by direct bank credits.

Helena Banks

Although only deposits in the Helena clearing bank can be invested by the state, the Treasurer continues to maintain excessive demand account balances in three Helena banks other than the clearing bank.

During fiscal year 1975-76, the Treasurer and the Board of Investments authorized the use of these banks: Northwestern Bank of Helena, First Security Bank of Helena, and Bank of Montana, as depositories for certain state agencies. These banks receive agencies' deposits, which the Treasurer periodically transfers to the single clearing Helena bank. These depositories cost the state approximately $60,000 each year in lost interest income because idle bank balances are not being made available for investment.

Our fiscal year 1974-75 Board of Investments audit report issued in July 1976 stated that the three non-clearing banks' combined average daily balance for the months September 1975 through December 1975 was $801,919. The report also showed one of these banks' receiving 56 percent of the average total monthly deposits. This bank held 72 percent of the total average daily demand account balance--$578,712. That bank was First Security Bank of Helena.

We computed the average daily balance for First Security Bank of Helena for the months of August and September 1976 to determine if the Treasurer had acted to reduce that demand account balance as we recommended in the Board of Investments audit report. The Treasurer maintained average daily balances in First Security Bank of Helena of $514,764 during August 1976 and $593,734 during September 1976. We asked the Treasurer why she keeps an excessive balance in this bank. She stated that she had instructed her deputy to keep the First Security balance down to $50,000 after we issued the Board of Investments audit report in July 1976.

The deputy allowed the First Security demand account balance to increase without drawdown from a $222,907 balance on August 25, 1976 to

a $1,345,574 balance on September 10, 1976, when she transfered $1 million to the clearing bank, making it available for investment by the state.

Each Helena bank notifies the Treasurer's office each day of collected balances in the Treasurer's account. Therefore, allowing that bank to accumulate over $1,345,000 in a 15-day period constitutes both poor judgment and inefficient cash management. We can find no reason to justify the deposit of millions of dollars in a bank other than the single Helena clearing bank.

We question whether the convenience of the three non-clearing Helena depository banks or the local economic effect of those account balances justifies maintaining them. Convenience to state agencies lacks sufficient justification, when two of the banks are located within three blocks of the clearing bank and the third bank is located only six blocks from the Treasurer's office. In addition, state agencies do not use the closest available depository.

During fiscal year 1975-76 the Helena liquor store #1, located three blocks from the single clearing account, deposited receipts in the First Security Bank 16 blocks from its location. The Montana Highway Patrol deposits receipts in the Bank of Montana, when the Treasurer's office is located as close to patrol headquarters as the bank. These deposits often lie idle for periods of two weeks or more before the money is transferred to the clearing bank and invested.

We calculated an approximate annual loss of income resulting from deposits in other than the single Helena clearing bank. Based upon the September through December 1975, $801,919 average total daily balance for the three banks and a 7½ percent interest rate, the state loses over $60,000 annually by maintaining these depositories.

If these deposits are intended to provide economic benefits to the community, certificates of deposit would seem a more stable source of loanable funds, considering the uncertainty of demand deposits and no guaranteed minimum compensating balance.

RECOMMENDATION

We recommend that the Treasurer transfer excess balances in Helena non-clearing banks to the clearing bank daily, by wire transfer, based upon daily collected balances.

We recommend that the Board of Investments set maximum compensating balances for each Helena state depository.

COLLATERALIZATION OF BANK DEPOSITS

The Treasurer is charged by statute with ensuring that banks which have state funds on deposit have pledged securities in amounts sufficient to ensure that state money is secured in case of bank failure. Section 79-307, R.C.M. 1947, specifies the type of security that depositing banks may pledge and requires that the amount of pledged securities shall equal the amount of any deposit in excess of deposit insurance. The Federal Deposit Insurance Corporation now insures deposits up to $100,000. Banks with less than this amount are not required to pledge collateral to the state.

The Treasurer maintains a Collateral Investment Securities Report to account for and control securities pledged by various banks. We found significant errors in this report, as well as other weaknesses which indicate that state money is not adequately collateralized.

Inadequate Collateralization of State Depositories

In our report on the Office of the State Treasurer for year ended December 31, 1969, we recommended the State Treasurer institute a formal daily procedure whereby the balances of demand deposits are compared to collateral to detect and prevent instances where deposits exceed collateral. The Treasurer has not complied with this recommendation.

Section 79-301(2), R.C.M. 1947, states, in part, that "No such deposits in excess of the amount insured by the federal deposit insurance corporation ... shall be made unless the bank ... first delivers to the state treasurer or deposits in trust with some solvent bank as hereinafter provided, as security therefor, bonds or other obligations of the kinds listed in section 4 (79-307) of this act, having a market value at least equal to the amount of such deposits in excess of the amount so insured." Our review of bank collateral disclosed that the State Treasurer does not require depository banks to adequately collateralize deposits. For example, at June 30, 1976, a Bozeman bank was undercollateralized by $848,150. On the same date an Ekalaka bank was undercollateralized by $8,754.

One of the problems which caused banks to be undercollateralized resulted from matured securities being listed on the Treasurer's report. As of June 30, 1976, the Treasurer's office had $1,607,000 of securities shown as pledged to the state of Montana which had matured and had been released by trustee banks prior to June 30, 1976. The $1.6 million includes 27 matured securities which are shown as pledged on the Collateral Investment Securities Report from 15 depository banks. As a result, the Collateral Investment Securities Report is overstated by $1.6 million.

The deputy treasurer stated that she believed matured securities were still good collateral until the Treasurer's office released them, regardless of the maturity date. She believed this because she thought the securities are only allowed to be cashed upon the bank's receipt of a Treasurer's official release and the original copy of the pledge contract. By contacting the 15 depository banks pledging the matured securities, we found that in all cases the banks redeemed the securities in violation of their contract with the State Treasurer.

Trustee banks are selected by the individual banks which pledge the securities. These trustee banks return security proceeds to Montana banks without a release by the Treasurer's office. As a result, the trustee bank and the bank which pledged the securities know that a security pledged to the state of Montana has been sold, but the State Treasurer is unaware of the transaction. To prevent this situation, the Board of Investments and the State Treasurer should place the responsibility for proper collateralization on the banks which have state money on deposit.

Banks which become undercollateralized or violate pledge contracts should be removed from the list of authorized state depositories by the Board of Investments. Under these conditions, even if matured securities were sold without release by the Treasurer, the responsibility to maintain adequate collateralization would remain with the state bank.

RECOMMENDATION

We recommend that the State Treasurer and the Board of Investments notify state banks that they will be responsible for maintaining adequate collateralization.

Errors in the Collateral Investment Securities Report

Our audit of the collateral investment securities report revealed errors in the description of securities, interest rates, due dates, and par values. These errors have accumulated because the securities accountant does not verify his requested changes to the report made by data processing. Also, the securities accountant does not, on a timely basis, compare the report to actual pledge agreements.

The collateral investment securities report, like any inventory listing, must periodically be tested to the actual items on the inventory. The Treasurer's office should correct the numerous errors in this report and develop procedures to periodically test the securities listing.

RECOMMENDATION

We recommend that the Treasurer:

1. *Verify all changes to the collateral securities investment report.*
2. *Compare the collateral securities investment report to actual pledge agreements on a periodic basis.*

Substitution of Pledged Collateral

Section 79-301(4) states, in part, that "Any bank ... pledging securities as provided in this section may at any time substitute securities for any part of the securities pledged. ... If the securities so substituted are held in trust, the trustee shall, on the same day the substitution is made, forward by registered or certified mail to the state treasurer and to the depository bank, a receipt specifically describing and identifying both the securities substituted and those released and returned to the depository bank."

Our review of the June 30, 1976, collateral balance found instances where the trustee bank did not, on the same day of substitution, forward by mail a substitution receipt to the State Treasurer. These discrepancies violate Section 79-301(4) and create overstatements in the Collateral Investment Securities Report.

RECOMMENDATION

We recommend that the Treasurer require all trustee banks to forward a substitution receipt to the Treasurer's office the same day of substitution.

Limited Obligation and Revenue Bonds Pledged as Collateral

Section 79-307, R.C.M. 1947, sets forth the types of securities which the State Treasurer may accept from depository banks to secure deposits of public funds. Limited obligation or revenue bonds are not allowable.

We found in our review of bank collateralization that at June 30, 1976, there were $1,555,000 of limited obligation long-range building bonds and $588,000 of revenue bonds pledged to the state of Montana. By accepting limited obligation and revenue bonds as collateral, the State Treasurer is not in compliance with Section 79-307, R.C.M. 1947.

RECOMMENDATION

We recommend that the Treasurer:

1. *Accept as collateralization only securities allowed by Section 79-307, R.C.M. 1947, or*
2. *Seek legislation to authorize other securities as collateral.*

Market Values of Pledged Securities

Section 79-301(2), R.C.M. 1947, states, in part, that market value, rather than par value, is the criterion used to determine adequate collateralization. In our review of market values we noted the problems described below.

We examined five depository banks for market value of pledged collateral, and found misstated market values on the Treasurer's records as follows:

Bank	Misstatement	
Bank A, Bozeman	$154,269	
Bank B, Ekalaka	3,000	(One security pledged)
Bank C, Billings	15,360	
Bank D, Great Falls	51,860	
Bank E, Billings	17,570	(Two securities pledged)
Total Misstatement	$242,059	

Officials in the Treasurer's office stated that market values have not been updated since the office automated the accounting for bank collateralization two years ago. Market values must be updated frequently, so that the State Treasurer will know the amount of collateralization per depository bank.

We also noted that the securities accountant often obtains the market value of newly pledged securities from the depository banks pledging the securities. The State Treasurer should obtain market values from independent sources. Depository banks could inflate market values provided the Treasurer to decrease the securities required to cover time and demand deposits in their banks.

RECOMMENDATION

We recommend that the Treasurer:

1. *Update, on a regular basis, the market value of pledged securities on the Collateral Investment Securities Report.*
2. *Obtain market value quotations of pledged securities from independent sources.*

Timing of Legally Pledged Collateral

Securities are held by custodian banks under the terms of security agreements between the depository bank, the custodian bank, the Treasurer and the Board of Investments. The custodian bank prepares the security agreement but does not sign it until all other parties to the agreement have signed. After the depository bank signs the agreement, it mails the original to the State Treasurer. At the point the Treasurer signs the agreement, which is prior to the custodian bank's signing it, the State Treasurer considers the collateral as legally pledged. This is not the case. Collateral in custodian banks is not legally pledged until the pledge agreement (trust receipt) is properly executed by all parties.

The Treasurer should request that the custodian bank sign the agreement prior to mailing it to other parties. If the bank will do this, the agreement will be executed by all parties when the Treasurer signs it, and she can retain a copy of the agreement as evidence that a security is pledged.

At June 30, 1976, the Treasurer recorded approximately $1.5 million of collateral for which she did not have an original pledge agreement. Since the Treasurer did not have the original pledge agreement in her

possession, if one of the depository banks involved were to become insolvent, recovery of state funds would not be guaranteed.

RECOMMENDATION

We recommend that the Treasurer request trustee banks to sign security pledge agreements prior to mailing them to other parties.

Contingent Revolving Accounts

The Treasurer does not maintain a complete record of contingent revolving funds in each depository bank. Many state agencies maintain these revolving funds for travel, miscellaneous, or emergency expenses. These bank accounts are authorized for accounting entities rather than being specified by bank. Therefore, the Treasurer has no record of the contingent accounts' existence by each depository bank.

The Department of Administration should notify the Treasurer of all authorized contingent bank accounts. The Treasurer should establish records of contingent accounts in each depository bank and include this cash along with the Treasurer's account balance when determining adequate collateral for each bank.

RECOMMENDATION

We recommend that the Department of Administration notify the Treasurer of all authorized contingent revolving bank accounts.

We recommend that the Treasurer establish and maintain records for these accounts and include these account balances in the determination of each bank's collateralization.

Conclusion on Collateralization of Deposits

In the State Treasurer's annual report to the Governor for fiscal year ended June 30, 1975, the Treasurer stated: "The pledged collateral is automated on the Collateral Investment System. Through this system we are able to give instantaneous analysis of the bank's pledgings versus the amount of state funds in the bank's possession. This system gives the State Treasurer market values of collateral held so that the state will be able to retrieve all funds in case of a bank failure." However, we found that the system does not give instantaneous analysis of a bank's pledgings versus the amount of state funds in the bank's possession, and the Treasurer has no procedures to determine the amount of state funds in the depository bank's possession.

The state of Montana could not necessarily retrieve all funds in case of bank failure. In the preceding sections of this report we have discussed several flaws in the automated system. These flaws contribute to a total overstatement of the Collateral Investment Securities Report of $6.1 million at June 30, 1976. If there were bank failures, it would be unlikely that the state of Montana could collect $6.1 million of state funds. Officials in the Treasurer's office are aware of the inadequate system currently used, but they have done little to correct the situation.

REVENUE

The financial statement shown on page 55 of this report lists general fund revenue as $1,111,698 and federal and private grant clearance fund revenue as $142,524. During our audit of the transactions creating these amounts, we noted the following problems.

Revenue From Drivers' License Fees

The Department of Administration, Management Systems Division has developed accounting procedures and policies for the State Treasurer for accounting for drivers' license fees. The Department of Administration's policies state that when the State Treasurer receives county drivers' license fees, 5 percent of the receipts should be deposited, as revenue, to the credit of drivers' education in compliance with Section 75-7902, R.C.M. 1947. The Treasurer deposits the remainder in the federal and private grant clearance fund to the credit of drivers' license fees. This portion is not recorded as revenue at this point.

Each pay period the Department of Justice notifies the State Treasurer of an amount equal to 16 percent of highway patrolmen's gross salaries. The State Treasurer then transfers this amount of drivers' license fees to the Highway Patrol Retirement Fund as revenue. The Treasurer transfers the remaining balance in the drivers' license fee account less $20,000 to the general fund as revenue. The Treasurer retains $20,000 in the account to meet the mid-month's pay period costs since collections of drivers' license fees are sporadic during the month.

This procedure is not in compliance with existing statutes and resulted in an understatement of revenue of approximately $45,000 at June 30, 1976. Section 84-1901, R.C.M. 1947, provides, in part, that the State Treasurer shall deposit to the credit of the state general fund all moneys received from the collection of automobile drivers' license fees under Section 31-135, R.C.M. 1947. Section 31-210, R.C.M. 1947, provides that the state of Montana shall annually contribute to the Montana highway patrolmen's retirement account an amount equal to 16

percent of the salaries paid to highway patrolmen who are covered by the retirement system. This section also provides that the contribution shall be made from drivers' license fees.

To comply with existing statutes and to avoid understatements of revenue, the Treasurer should deposit all drivers' license fees to the general fund upon receipt, except 5 percent which is deposited to the credit of drivers' education in compliance with Section 75-7902, R.C.M. 1947.

A July 30, 1975, letter opinion from the Attorney General provides that Section 31-210 constitutes a proper appropriation of moneys from the collection of motor vehicle drivers' license fees in the amount of 16 percent of highway patrolmen's salaries, for funding the highway patrolmen's retirement system. However, a specific appropriation from the general fund for the retirement system would simplify the distribution of these funds by eliminating the Treasurer's distribution function and by including the distribution as a Department of Justice payroll function.

To preclude future problems, should the drivers' license fees not be adequate to fund the highway patrolmen's retirement contribution, Section 31-210 should be amended to remove drivers' license fees as the source of funding and to provide for funding the system from the general fund.

RECOMMENDATION

We recommend that the Treasurer deposit all drivers' license fees to the general fund upon receipt, except for 5 percent of the fees which is deposited to the credit of drivers' education.

We recommend that legislation be proposed to amend Section 31-210, R.C.M. 1947, to delete the provision that highway patrolmen's retirement account payments be made from drivers' license revenue.

We recommend that the Office of Budget and Program Planning request a separate legislative appropriation from the general fund to the Department of Justice in the amount specified in Section 31-210, R.C.M. 1947.

TREASURER'S OFFICE ADMINISTRATION

The internal administration of the Treasurer's office, including control over fixed assets, personnel files and time and attendance records contained weaknesses described in the following report sections.

Physical Inventory

On June 26, 1970, the Department of Administration issued Management Memo 70-17 requiring state agencies to conduct physical inventories of fixed assets on an annual basis. The Treasurer's office took its first physical inventory of fixed assets during December of 1975--5½ years after the management memo was issued.

Our review of the physical inventory records revealed that the Treasurer's office did not include all fixed assets in the inventory. Omitted assets included antiques for which the Treasurer's employees did not know the costs. These were omitted because the cost could not be determined. The Department of Administration was unable to give the Treasurer's office any guidelines for valuing the antiques. The Department of Administration took the position that unless an asset costs $100 or more, or unless an agency can reasonably estimate the cost, then the agency does not have to inventory it.

Accounting for fixed assets has two basic purposes: management control and possible insurance recovery in case of loss or damage. Because of the value of antiques owned by the state, agencies should maintain adequate control and insurance over these assets to prevent loss. Antiques may require an appraisal to determine fair market value, or in some cases agency staff may reasonably estimate antiques' value.

The Department of Administration has issued a draft Management Memo which sets forth guidelines for valuing and accounting for fixed assets and equipment.

RECOMMENDATION

We recommend that the Treasurer's office:

1. *Conduct an annual physical inventory of fixed assets.*
2. *Include all assets with a value exceeding $100 in the inventory.*

Personal Services

As part of our audit of the Treasurer's office, we evaluated existing internal control surrounding payroll activities, and we reviewed selected payroll transactions. Proper separation of duties prevents control over financial activities by any one employee. Retention of pertinent payroll forms and documentation of payroll information aids payroll clerks in performing their duties and provides adequate information for testing the resultant transactions. In our examination we found the payroll internal control and recordkeeping problems discussed below.

Personnel Files

The Treasurer maintains personnel files for each current and past employee of the Treasurer's office. Good management requires the use of

these files for determining accurate payroll information and for a later review to verify the accuracy of past payroll transactions.

Our review of personnel files showed that the Treasurer does not maintain complete and up-to-date files. We could not find 34 documents which should have been in the personnel files of ten employees. The deputy treasurer said that all documents were on file and that she would find them; however, in order to supply us with the documents, she had to photocopy the Central Payroll Division's files for the Treasurer's employees. We found no specific requirements for state agencies to maintain personnel files, although each state agency should maintain them on a complete and up-to-date basis to provide adequate control over payroll expense.

RECOMMENDATION

We recommend that the Department of Administration issue guidelines for all state agencies to use in maintaining complete and current personnel files.

Time and Attendance Records

To document payroll expense, employers normally retain information relating to employees' time and attendance at work. Employees must record their time and attendance, and supervisors approve this record. This procedure acts as a control to assure proper recording of employees' time and attendance and the resultant pay.

The Treasurer does not require employees to account for their time. Instead, the deputy treasurer prepares all time and attendance records and computes sick and annual leave. She uses one 8" by 11" sheet of paper to record each employee's time and attendance for a three-year

period. A completely blank sheet of paper with an employee's name on it indicates that this employee was present during all regular work days and worked eight hours each day.

We found this method of timekeeping to be insufficient. The deputy treasurer's time and attendance records showed one employee as working eight hours each work day four months after she terminated. We found three instances in which employees took leave for extended periods of time, totaling 114 hours, and the deputy did not record it in the leave records. The records do not show employees' compensatory time earned or used. For nine employees' leave records which we reviewed, we found errors in six of them.

The Department of Administration designed the Employee Leave Record and Request for Leave of Absence to help prevent clerical errors of this nature, but the Treasurer's office does not use them. Use of these time and attendance forms would benefit management and internal controls over the Treasurer's payroll system.

We also found other conditions which did not comply with statutory and administrative requirements. The deputy treasurer accrues a full month's sick and annual leave credits for employees who begin work during a pay period. She charges sick leave in portions of hours, and she does not identify sick leave taken for emergency purposes in the leave records.

Sections 59-1001 and 59-1008, R.C.M. 1947, require that employees earn sick and annual leave credits from the first full pay period of employment. Section 1.0304.84, M.A.M., requires that sick leave charges and credits (except credits for biweekly employees) shall be charged and

credited to the nearest full hour. The Treasurer should apply the same requirement to annual leave charges.

Section 1.0304.89, M.A.M., requires that emergency sick leave charged against an employee's sick leave credits shall not exceed a total of five work days per calendar year for illness in the immediate family. Because of failure to identify sick leave taken for emergency reasons in the leave records, we were unable to determine whether the Treasurer's office complied with this requirement. We believe identifying emergency sick leave in the leave records would aid state agencies in complying with this requirement.

RECOMMENDATION

We recommend that the Treasurer require:

1. *Employees to record their own time and attendance on a standard time and attendance record.*
2. *Supervisors to approve time and attendance records.*
3. *Payroll personnel to base the actual payroll on time and attendance records prepared by the employees.*
4. *Employees to use standard forms prepared by the Department of Administration regarding employee leave.*
5. *Payroll personnel to record sick and annual leave in compliance with Sections 59-1001 and 59-1008, R.C.M. 1947.*
6. *Payroll personnel to identify emergency sick leave in the leave records.*

PRIOR AUDIT REPORT RECOMMENDATIONS

The State Treasurer's office has complied with 19 of the 79 recommendations in our last audit report on the State Treasurer's office. Forty-five of the recommendations are no longer applicable to the Treasurer's office, since other agencies now fulfill certain responsibilities which were formerly within the authority of the Treasurer's office, or laws have been enacted, changed, or repealed which make the recommendations inapplicable. Of the remaining 15 recommendations, the State Treasurer has partially complied with one and has not complied with 14. We discuss below some of the more significant recommendations that the State Treasurer has not complied with since our last audit report. These matters are discussed in detail in the preceding pages.

1. The Treasurer has not identified and specifically assigned in writing the various duties and responsibilities within the office.
2. The Treasurer retains excessive amounts of cash on hand.
3. The Treasurer allows depository banks throughout Montana to retain excessive amounts of state money for extended periods of time, resulting in material lost interest to the state of Montana.
4. The State Treasurer does not require adequate collateralization of state moneys deposited in time and demand accounts throughout Montana.
5. The State Treasurer does not require her employees to maintain time and attendance records on a current basis, and she does not maintain current balances of leave accrued or taken.

FINANCIAL STATEMENTS

OFFICE OF THE STATE TREASURER
TREASURER'S CASH ACCOUNTABILITY ACCOUNT
STATEMENT OF CASH POSITION
JUNE 30, 1976

RESOURCES:		
Cash		
Cash On Hand	$ 3,000	
Cash In Demand Accounts	21,352,948	$ 21,355,948
Cash in U.S. Treasury		(1,466,864)
Investments		
Time Certificates of Deposit	7,490,000	
STIP Units at Cost	102,364,546	
Other Investments at Cost	50,763,722	160,618,268
Other Resources		
Cash advanced to Banks for Purchasing Bonds and Bond Coupons	1,980,338	
Deposit Corrections Clearing	441	1,980,779
TOTAL RESOURCES		$182,488,131
ACCOUNTABILITY:		
Accountability For Cash in Treasury		$162,357,520
Accountability For Outstanding Warrants		21,220,009
Inter Entity Transfers Clearing		(1,089,398)
TOTAL ACCOUNTABILITY		$182,488,131

(See Accompanying Notes)

OFFICE OF THE STATE TREASURER

Treasurer's Cash Accountability Account
Statement of Cash Position
Notes to Financial Statement June 30, 1976

1. TREASURER'S CASH ACCOUNTABILITY ACCOUNT

The State Treasurer serves as the central bank for all State agencies. The financial transactions relating to the Treasurer's central banking function are recorded in a separate accounting entity known as the Treasurer's cash accountability account.

In operating as a part of the state treasury system, agencies have two options: (a) depositing money directly with the State Treasurer, or (b) depositing money in an approved commercial depository to the credit of the State Treasurer. In either case, all money deposited with the State Treasurer evenutally is deposited into a commercial demand bank account secured by collateral deposits.

As required by law, unemployment insurance collections flow through an account with the United States Treasurer.

About 90 percent of the financial transactions recorded in the Treasurer's cash accountability account are made automatically through utilization of computer programs. Whenever a state agency submits a transaction which either increases or decreases the cash in treasury for a particular accounting entity, a computer program triggers an entry to the Treasurer's records. The summation of these entries produces one general ledger and grand total amounts for cash in demand accounts, cash in treasury, outstanding warrants, investments of general treasury cash, and others.

Most money held by the Treasurer is invested. All interest earned on general treasury cash is credited to the general fund account. (Some

state money is invested specifically on behalf of an accounting entity or other account as permitted by specific statutes. These investments are recorded in those accounting entities.)

As with most states, the initial disbursement of funds is made by warrant which, in essence, is a sight draft on the State Treasurer. The total of warrants not yet presented to the State Treasurer for payment is identified as "accountability for outstanding warrants."

2. INVESTMENTS

Investments are stated at cost.

The Board of Investments has the responsibility of investing the state's surplus treasury cash (the Treasurer's Fund). Short Term Investment Pool units comprise nearly 82 percent of the Treasurer's Fund investments. The Short Term Investment Pool (STIP) affords participants liquidity and a return on moneys that are surplus for short periods of time. The Treasurer's Fund investments also include Montana certificates of deposit, repurchase agreements and United States Treasury obligations (other investments).

The following is a comparison of cost and market for Treasurer's Fund Investments:

	Cost	Market Value
Time Certificates of Deposit	$ 7,490,000	$ 7,490,000
STIP Units	102,364,546	102,364,546
Other Investments	50,756,458	50,662,472
Total Investments	$160,611,004	$160,517,018

STATE TREASURER
ALL FUNDS
BALANCE SHEET
JUNE 30, 1976

	General Fund	Federal and Private Grant Clearance Fund
ASSETS		
Cash in treasury		$45,043
Available to pay accrued expenditures	$7,396	
Total Assets	$7,396	$45,043
LIABILITIES AND FUND BALANCE		
Accrued expenditures	$7,396	
Uncleared collections		$43,498
Fund balance		1,545
Total liabilities and fund balance	$7,396	$45,043

(See Accompanying Notes)

STATE TREASURER

ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES

FISCAL YEAR ENDED JUNE 30, 1976

	General Fund		Federal and Private Grant Clearance Fund		Total	
Revenue Category	Estimated	Actual	Estimated	Actual	Estimated	Actual
Licenses and permits						
County	$ 34,000	$ 36,282			$ 34,000	$ 36,282
Driving	627,960	516,664			627,960	516,664
Taxes						
Property taxes	22,687	17,430			22,687	17,430
Fines						
Motor vehicle	495,248	513,375			495,248	513,375
Sale of documents, merchandise and property						
Sale of property			$140,979	$140,979	140,979	140,979
Rentals, leases, and royalties						
Leases			1,545	1,545	1,545	1,545
Income collections and transfers						
Intra-state services	31,500	27,947			31,500	27,947
GRAND TOTAL	$1,211,395	$1,111,698	$142,524	$142,524	$1,353,919	$1,254,222

(See Accompanying Notes)

STATE TREASURER

ALL FUNDS

STATEMENT OF EXPENDITURES COMPARED TO APPROPRIATIONS

FISCAL YEAR ENDED JUNE 30, 1976

	Treasury Management Program	Local Assistance Program
General Fund		
Appropriation	$126,354	--
Expended	126,293	--
Unexpended balance	$ 61	--
Earmarked Revenue Fund		
Appropriation	--	$6,575,000
Expended	--	6,575,000
Unexpended balance	--	--
Federal and Private Grant Clearance Fund		
Appropriations[1]	--	--
Expended	--	$ 140,979
Unexpended balance	--	--

[1]Does not require an appropriation.

(See Accompanying Notes)

STATE TREASURER
ALL FUNDS
STATEMENT OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1976

	Treasury Management Program	Local Assistance Program
Personal services		
Salaries	$100,949	
Other compensation	808	
Employee benefits	12,706	
Total	114,463	
Operating expenses		
Contracted services	4,432	
Supplies and materials	2,470	
Communications	1,780	
Travel	1,728	
Rent	189	
Repair and maintenance	876	
Other expenses	355	
Total	11,830	
Local assistance		$ 140,979
Grants		6,575,000
Total expenditures	$126,293	$6,715,979

(See Accompanying Notes)

STATE TREASURER
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1976

	General Fund	Earmarked Fund	Federal and Private Grant Clearance Fund
Balance July 1, 1975	--	--	$ 11,404
Additions:			
Appropriated from general fund	$126,354		
Cash available from consolidated entity[1]		$6,575,000	
Revenue and income			142,524
Prior year expenditure adjustments			(11,404)
Total balance plus additions	126,354	6,575,000	142,524
Deductions:			
Expenditures	126,293	6,575,000	140,979
Reversions	61		
Total deductions	126,354	6,575,000	140,979
Balance June 30, 1976	$ -0-	$ -0-	$ 1,545

[1]The Department of Revenue records this revenue and the Treasurer distributes it.

(See Accompanying Notes)

OFFICE OF THE STATE TREASURER

Notes to the Financial Statements
Fiscal Year Ended June 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

The state of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received as cash. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by law." (Montana Administrative Manual 2-0240.40)

2. RETIREMENT PLAN

The Treasurer's employees are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 5.55 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages. The Treasurer's office incurred pension costs of $5,365 during fiscal year 1975-76. The state's policy is to fund accrued pension costs.

3. VACATION AND SICK PAY

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount

of the liability associated with unused, accumulated vacation and sick leave at June 30, 1976, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

4. GENERAL FIXED ASSETS AND DEPRECIATION

General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. There are no accounting controls for the general fixed assets group of accounts, and depreciation is not provided on general fixed assets.

SOUTHSIDE NATIONAL BANK   MISSOULA MT   59801

LOW BALANCE 25,229.00   ITEMS DEPOSITED 0

110,351.76	23	75,043.30	3	151,000.00	.00	.00

CHECKING ACCOUNT STATEMENT

ACCOUNT NUMBER	DATE OF STATEMENT	AMOUNT
412 0026	8-29-75	34,395.06

PLEASE EXAMINE THIS STATEMENT AND REPORT ANY DIFFERENCES WITHIN 15 DAYS

STATE OF MONTANA   26   586
HOLLIS G CONNORS STATE TREAS   641
HELENA, MT   59601

A FULL SERVICE BANK

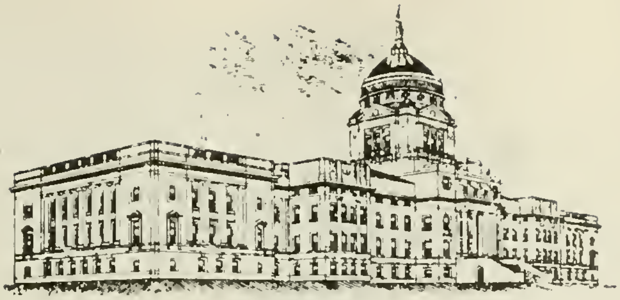
CHECKS	DEPOSITS	DATE	BALANCE
	10000		
	23000	0801	110,68176
	18000		
	26800		
	257340		
	829350		
	1107860	0804	133,07526
	977610	0806	142,85136
7800000	14000		
	27000		
	623360	0807	71,49496
	837215	0808	79,86711
	727065		
	959615	0811	96,73391
	4000		
	25025	0812	97,02416
2500000		0813	72,02416
	6000		
	~~24000~~		
	43800		
	46775	0815	73,22991
4800000		0818	25,22991
	6000		
	15700	0828	25,44691
	894815	0829	34,39506

P.O. 17,373.63
Dep in trans 26,031.95
adj fr 102 250.25
adj to 133 (10,718.05)
Dep Cancel (200.00)
Dec Cancel (1.00)
Cr fund fr July 19 1,084.90
Cr fund fr my or exp 473.38
34,395.06

~~P.O. 17,373.63~~
adj fr 102 250.25

CODES
DM - Debit Memo
RI - Return Item From Deposit
SD - Service Chargeable Debit
SC - Service Charge
Blank - Check or Deposit
LS - Package Post Item
OC - Overdraft Charge
CM - Credit Memo
RC - Return Check
EC - Error Correction
OD - Account Overdrawn
RD - Reversal of a Deposit
MR - Debit Reversal
AR - Automatic Reversal
RM - Credit Reversal
WC - Wire Transfer Credit
PD - Payroll Deposit
AC - Automatic Credit
AP - Automatic Payment
WD - Wire Transfer Debit
II - Installment Loan Payment
SV - Savings Deduction
PY - Automatic Payment
AD - Automatic Advance

AGENCY REPLIES



State of Montana

Office of the

State Treasurer

Capitol

Helena, Montana 59601

Vera S. Freeman

February 22, 1977

RECEIVED

FEB 22 1977

MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Morris:

In reference to the audit report of the Treasurer's office, I wish to thank you for your help and your constructive recommendations.

The last audit was conducted in December of 1969. Since then, as you know, the changes in state government have grown in significant ways. The office has coped with changes and used its own initiative in implementing the changes brought about by the growth and its effect on our office. The most traumatic changes were the implementation of the State Wide Accounting System, better known as SBAS, in 1972 and the creation of the Board of Investments. Our own workload has doubled, and in some instances tripled, without an increase in staff.

We were aware of the need for segregation of duties, more internal control and periodic review of work done by employees by supervisors, but, in some instances, management was doing the actual work. We are always told a good manager delegates duties. How can duties be delegated when there is nobody to delegate to?

I think it should be pointed out that I am answering the audit that was made of the Treasurer's office which was then under control of an elected official. I served as the Deputy Treasurer and the only authority I had was delegated to me by the Treasurer. Seemingly, I was in charge of the office; however, I was never given authority to regulate the responsibility of <u>all</u> employees as some reported directly to the Treasurer. With such a small staff, this was very

Mr. Morris L. Brusett
February 22, 1977
Page 2

disruptive in the day to day operation of the office. This made it almost impossible to have a unified operation and proper accountability of duties. This is a statement of fact and not being offered as an excuse for condition of the office at the time of the audit.

Going ahead, I pledge my full cooperation to the Director and will cooperate with the Legislative Auditor's office. I want to do a good job and now that my responsibilities have been clarified I have enough confidence to believe that I can implement your recommendations upon which we agreed. The office will then be functioning as rightfully expected.

Sincerely,

Vera

Vera S. Freseman
Deputy Treasurer

VSF:pb

RECOMMENDATION - Page 4

We recommend that the Treasurer:

1. Establish treasury objectives which meet the statutory requirements of the office as the basis for a treasury management plan.
2. Establish and implement a formal management plan that defines the duties and responsibilities of each employee.

RESPONSE

1. We concur with the recommendation. We have established objectives which will meet the statutory requirements of the office.
2. We concur with the recommendation. We are in the process of writing a format defining specific duties and responsibilities of each employee. We have eight employees at this time. Complete segregation of duties with such a small staff, while maintaining proper internal control, poses a problem for completing daily work.

RECOMMENDATION - Page 7

We recommend that the Treasurer:

1. Separate the change fund duties of maintaining custody of the cash from the duties of accounting for that cash, and allow only the deputy or the Treasurer to sign checks for currency.
2. Periodically count the change fund and review all accounting entries affecting cash on hand.

RESPONSE

1. We concur with the recommendation. We have separated the control of cash by establishing an imprest cash fund. The change fund duties are being handled by the assistant cashier. The writing of checks will be done by the deputy or the cashier.

2. The cashier will periodically count and verify the cash on hand.

RECOMMENDATION - Page 8

We recommend that the Treasurer establish the cash change fund on an imprest basis at the minimum amount necessary to carry out projected check cashing activity.

RESPONSE

We concur with the recommendation. We have established an imprest cash fund on a $10,000 balance which was recommended to us by the Legislative Auditor.

RECOMMENDATION - Page 9

We recommend that the Treasurer establish a policy requiring daily deposit of all checks cashed from the change fund.

RESPONSE

We concur with the recommendation. All checks will be deposited daily. A check from the Treasurer's account will be drawn to replenish the fund.

RECOMMENDATION - Page 10

We recommend that the Treasurer:

1. Establish written policies and procedures to require that currency be removed from collection reports upon receipt by the cashier.
2. Deposit each day's receipts intact.

RESPONSE

1. We concur with the recommendation. All currency is being removed from the collection reports and placed in a locked drawer.
2. Deposits from agencies are being made intact to the bank.

RECOMMENDATION - Page 10

We recommend that the Treasurer require that each change fund custodian sign for the currency for which he or she is responsible.

RESPONSE

We concur with the recommendation. The assistant cashier will be required to sign for the currency for which he or she controls.

RECOMMENDATION - Page 13

We recommend that the Treasurer:

1. Require monthly reconciliation of all bank accounts and the Treasurer's clearing account.
2. Agree the total of subsidiary account balances to the general ledger each month.

RESPONSE

1. We concur with this recommendation and as of this date all the subsidiary accounts to cash in demand accounts for the outside banks are being reconciled to the bank statements. The Helena clearing bank is now being reconciled as well as Bank 999.

   The four Employment Security Division accounts are currently reconciled to SBAS, Form 593 and 411 and they are also balanced to the Treasurer's hand posted records. The Treasurer's office does not receive bank statements on these four accounts and, therefore, cannot reconcile them to cash in demand accounts. There is some confusion as to whether ESD is under the control of the State or the Federal government. This office should either receive the bank statements or the accounts should be taken out of the general ledger and be the responsibility of the Employment Security Division.

general ledger account 6102 and its subsidiary account was caused by documents:

3301	271	#51	$201.00	10/25/74
6101	271	#10033	201.00	2/10/74
6603	274	#15	475.00	4/23/74
			$877.00	

The computer coded these documents into bank 000 in the subsidiary detail ledger by mistake. There is no such bank as 000. When this office tried to correct the entries, the computer rejected the documents. These are paper transactions generated by computer errors and we are currently doing research to determine the proper method to correct them.

RECOMMENDATION - Page 14

We recommend that the Treasurer:

1. Establish a standardized bank reconciliation format that clearly documents all reconciling items.
2. Insure that an appropriate supervisor review and approve bank reconciliations on a sample basis.

RESPONSE

1. This office is currently reconciling all bank accounts and checking to see if the subsidiary account balances to the general ledger.
2. We concur with this recommendation and reviews will be made periodically.

RECOMMENDATION - Page 16

We recommend that the Treasurer request all banks to submit statements with a month-end cutoff.

RESPONSE

We concur with this recommendation. A letter has been mailed to all banks requesting a month-end cut off of all bank statements. Banks not complying will be notified by mail again with a follow-up by phone if still not in compliance.

RECOMMENDATION - Page 17

We recommend that the Treasurer:

1. Require monthly reconciliations of paying agent bond and coupon accounts.
2. Review those reconciliations, follow up discrepancies, and resolve differences between treasury and bank records.

RESPONSE

1. We have always requested statements on a monthly basis from banks acting as paying agents. During the peaks of activity such as January and July, we have requested statements on a fifteen day period. The transactions are so heavy at that point in time that disbursing and working of the coupons and bonds would be much easier if we could have an accounting on a more timely basis. However, requesting and receiving these necessary statements are two different things.
2. We concur with this and will follow up discrepancies on a more timely basis.

RECOMMENDATION - Page 18

We recommend that the Treasurer verify the amounts of all coupons before paying for them.

RESPONSE

We concur with this recommendation if the banks would allow delivery without payment. They will not do this. The other alternative would be for a person from our office to work the bonds and coupons in the bank presenting them for payment. This would require many man hours away from the office. We have found that signing and picking up investments from the banks is time consuming and the work involved in counting bonds and coupons would be much more.

RECOMMENDATION - Page 19

We recommend that the Treasurer:

1. Compute the total amount of bonds and coupons payable at each maturity date and send paying agents only that amount.
2. Reduce paying agent cash balances for matured bonds and coupons purchased directly at her office.
3. Maintain a balance in each paying agent bank equal only to outstanding matured bonds and coupons.

RESPONSE

We concur with all three recommendations; however, we do not send excessive amounts to any bank. The 1st National Bank of St. Paul has three issues they are paying agent for. The 1st National Bank of Minneapolis is paying agent for one issue and the 1st National Bank of Missoula one issue. The Chase Manhattan Bank is paying agent for over twenty bond issues. We must have money to meet the payment of all bonds and coupons presented to that bank on the day the bonds and coupons are due. The Office of State Treasurer is also the paying agent on these issues. Historical data shows that in the last year more bonds and coupons have been presented for payment directly to us than have been in the past. This is

an unknown quantity and we have people in our office with the expertise to maintain data and review records, but time to do extra research and still keep up the day to day work in the office is not feasible with our small staff.

RECOMMENDATION - Page 19 (lower page)

We recommend that the Treasurer maintain subsidiary ledgers to support the balance in the Purchased Bond and Coupon Clearing Account.

RESPONSE

We concur with this recommendation and we are working with the Department of Administration to have this implemented in the near future.

RECOMMENDATION - Page 21

We recommend that the Department of Administration work with the Treasurer and the State Auditor to develop procedures to account for outstanding warrants and eliminate the present duplication.

RESPONSE

We concur with this recommendation and we are working with the Department of Administration and the State Auditor to bring this about.

RECOMMENDATION - Page 22

1. We recommend that the Department of Administration work with the Treasurer and the State Auditor to develop a reconcilable subsidiary to the general ledger for outstanding warrants.
2. We recommend that the Treasurer reconcile outstanding warrants to her general ledger on a monthly basis.

RESPONSE

1. Management Systems and the Treasurer have worked with the State Auditor and have developed a new general ledger account that enables the outstanding warrants to be reconciled.
2. The warrants are now being reconciled on a monthly basis to the general ledger balance.

RECOMMENDATION - Page 24

We recommend that the Treasurer establish written policies and procedures limiting access to and the use of unused checks to only those employees authorized to sign the checks.

RESPONSE

We concur with this recommendation.

RECOMMENDATION - Page 25

We recommend that the Treasurer:

1. Establish written procedures to formally notify all depository banks of current, authorized check signers.
2. Maintain an adequate record that banks have been notified when authorized check signers change.

RESPONSE

1. We concur with this recommendation.
2. We concur with this recommendation.

RECOMMENDATION - Page 26

We recommend that the Treasurer:

1. Restrictively endorse all checks when they are received.
2. Deposit all checks upon receipt.

RESPONSE

1. We concur with this recommendation and it has been implemented.

2. We concur with this recommendation and all checks are deposited daily.

RECOMMENDATION - Page 27

We recommend that the Treasurer deposit all receipts in the bank no later than noon on the business day following receipt.

RESPONSE

We concur with this recommendation and all receipts received are deposited on the following day.

RECOMMENDATION - Page 27 (lower page)

We recommend that the Treasurer and the Department of Administration implement procedures to achieve timely submission of collection reports.

RESPONSE

We concur with this recommendation.

RECOMMENDATION - Page 31

We recommend that the Treasurer establish an automatic method of transferring money in depository bank accounts by direct bank credits.

RESPONSE

We concur with this recommendation and have already implemented a daily telephone call to thirty-two of the largest banks in the state to ascertain collected balances and instruct them to transfer same to the Helena clearing bank.

RECOMMENDATION - Page 34

We recommend that the Treasurer transfer excess balances in Helena non-clearing banks to the clearing bank daily, by wire transfer, based upon daily collected balances.

We recommend that the Board of Investments set maximum compensating balances for each Helena state depository.

RESPONSE

We concur with this recommendation.

RECOMMENDATION - Page 36

We recommend that the State Treasurer and the Board of Investments notify state banks that they will be responsible for maintaining adequate collateralization.

RESPONSE

We concur with the recommendation and will draft a letter notifying all banks with collateral to maintain adequate collateral at all times or to be removed as a depository bank for the State of Montana.

RECOMMENDATION - Page 37

We recommend that the Treasurer:

1. Verify all changes to the collateral securities investment report.
2. Compare the collateral securities investment report to actual pledge agreements on a periodic basis.

RESPONSE

1. We concur with the recommendation checking out all rejected securities on the collateral report. They will be corrected and re-entered on the next SBAS report on collateral.

2. We concur with the recommendation and on a periodic basis compare the collateral investment report to the actual pledge agreements.

RECOMMENDATION - Page 38

We recommend that the Treasurer require all trustee banks to forward a substitution receipt to the Treasurer's office the same day of substitution.

RESPONSE

We concur with the recommendation and have taken steps requiring that no security be released without written authorization from the State Treasurer and to have the trustee banks improve in forwarding all substitution receipts to the State Treasurer.

RECOMMENDATION - Page 38 (lower page)

We recommend that the Treasurer:

1. Accept as collateralization only securities allowed by Section 79-307, R.C.M. 1947, or
2. Seek legislation to authorize other securities as collateral.

RESPONSE

1. We concur with the recommendation and in the past months have eliminated all except $245,000 long range building bonds issued by the State of Montana. They are held by three banks which have been asked to substitute on them, but to date have not taken action to eliminate them.
2. Legislation is in the current 45th Session, Senate Bill #190 amending Section 79-307, R.C.M. 1947, to accept revenue bonds of any county, city, or political subdivision of the state, when backed by the full faith and credit of such subdivision.

RECOMMENDATION - Page 40

We recommend that the Treasurer:

1. Update, on a regular basis, the market value of pledged securities on the Collateral Investment Securities Report.
2. Obtain market value quotations of pledged securities from independent sources.

RESPONSE

1. We do not agree to the recommendation because the volume and change that takes place daily would make it an impossible task. We currently deal with 150 banks on the collateral report with a par value of $98,503,655 with a current market value of $95,195,368. The above $98,503,655 consists of well over 1,500 different types of securities from all over the forty-eight contiguous states, Alaska, Hawaii and various territories described in Section 79-307 (Securities for Deposits of Public Funds). In addition, there is no independent source that would be knowledgeable on all the different states, counties and other municipalities to prove and update the market values on such a large quantity of transactions.

   We believe that by requiring all banks to be covered by 110% on all state money, by never giving above par amount on the security at hand, and establishing a realistic market value on the date the pledge is put on the report, all banks should be more than covered by collateral even though the market value would be lower than at today's exchange rate.

2. We concur with the recommendation to a point. We currently obtain the market values from D.A. Davidson in Great Falls at no cost to

the state, along with the pledging bank's market value source. This provides a double check against inflated values given on securities and seems to be the most realistic way of obtaining a current market value with the least cost.

Also, D.A. Davidson in Great Falls provides the service fairly prompt, where other brokers take several days in locating values on securities in question. Some brokers will not even consider to do the job even on a single security without some form of compensation.

RECOMMENDATION - Page 41

We recommend that the Treasurer request trustee banks to sign security pledge agreements prior to mailing them to other parties.

RESPONSE

We concur with this recommendation and will request trustee banks to sign security pledge agreements prior to mailing them to other parties.

RECOMMENDATION - Page 46

We recommend that the Treasurer's office:

1. Conduct an annual physical inventory of fixed assets.
2. Include all assets with a value exceeding $100 in the inventory.

RESPONSE

1. We concur with this recommendation.
2. We concur with this recommendation.

RECOMMENDATION - Page 49

We recommend that the Treasurer require:

1. Employees to record their own time and attendance on a standard time

and attendance record.

2. Supervisors to approve time and attendance records.

3. Payroll personnel to base the actual payroll on time and attendance records prepared by the employees.

4. Employees to use standard forms prepared by the Department of Administration regarding employee leave.

5. Payroll personnel to record sick and annual leave in compliance with Sections 59-1001 and 59-1008, R.C.M. 1947.

6. Payroll personnel to identify emergency sick leave in the leave records.

RESPONSE

We concur with these recommendations.

1. This has already been done.

2. This will be done.

3. This is being done.

4. We have obtained standard forms prepared by the Department of Administration and all personnel files have been documented and brought up to date.

5. This has been done since the pay period ending May 21, 1976 when it was brought to our attention by the Legislative Auditor.

6. This will be done from this point on. In the last year only one person had need of emergency sick leave that was for only three days.

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

MAS L. JUDGE Governor

February 18, 1977

RECEIVED
FEB 18 197
MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

In accordance with your request, I have reviewed the report on the audit of the State Treasurer's Office and submit the following response to the recommendations directed to the Department of Administration:

Recommendation, Page 21

We recommend that the Department of Administration work with the Treasurer and the State Auditor to develop procedures to account for outstanding warrants and eliminate the present duplication.

We concur. The Department of Administration has already initiated some new procedures to address this problem.

Recommendation, Page 22

1. *We recommend that the Department of Administration work with the Treasurer and the State Auditor to develop a reconcilable subsidiary to the general ledger for outstanding warrants.*

We concur. As stated in the previous response, preliminary steps have been taken to improve the outstanding warrant accounting. The work of the task force will greatly assist in developing a practical solution to this problem.

Recommendation, Page 27

We recommend that the Treasurer and the Department of Administration implement procedures to achieve timely submission of collection reports.

We concur. Efforts will be made to speed the submission of collection reports to improve the status of the accounting reports. To address the draw down problem, the Treasurer's Office has initiated a schedule of telephone calls to the major depository banks throughout the State. Wire transfers are ordered on the excess collected balances reported by the banks.

Recommendation, Page 41

We recommend that the Department of Administration notify the Treasurer of all authorized contingent revolving bank accounts.

We recommend that the Treasurer establish and maintain records for these accounts and include these account balances in the determination of each bank's collateralization.

We concur. The Accounting Division will be instructed to notify the Treasurer of the authorized accounts.

Recommendation, Page 47

We recommend that the Department of Administration issue guidelines for all state agencies to use in maintaining complete and current personnel files.

We concur. The Personnel Division of the Department of Administration has been assigned the responsibility of issuing personnel administration guidelines, which will include instructions on contents of personnel files. A funding request has been included in the current budget to accomplish this function.

Following the recommendation of the Legislative Auditor, the Department of Administration established a special task force to address a number of the problems covered in this report. We recognize the need and totally agree with the recommendation to establish and implement a formal management plan for the operation of the State Treasury. Traditional barriers have clouded the lines of authority needed to accomplish such a plan. Enactment of Senate Bill No. 286 will remove these barriers.

Sincerely,

Jack C. Crosser

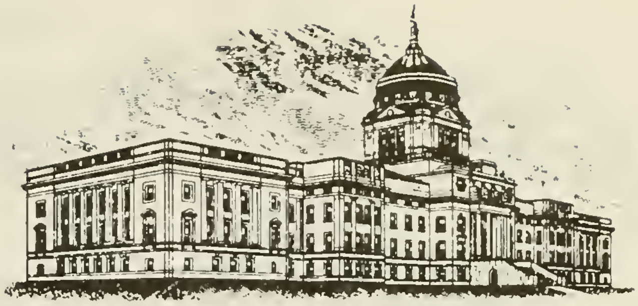
Jack C. Crosser
Director

JCC:bc

STATE OF MONTANA

DEPARTMENT OF ADMINISTRATION

BOARD OF INVESTMENTS



ROOM 236, MITCHELL BUILDING
HELENA, MONTANA 59601
(406) 449-2656

February 17, 1977

RECEIVED
FEB 18 1977
MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
State of Montana
Room 135, State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

You have directed recommendations to the Board of Investments contained in your audit of the State Treasurer's office. The following is our reply:

RECOMMENDATION, page 34

We recommend that the Board of Investments set maximum compensating balances for each Helena state depository.

> The State Treasurer reports to the investment staff on a daily basis the demand balances of the clearing bank and the investments are made on a daily basis from that account. The investment staff and the Board of Investments has no knowledge of any other balances of other bank accounts. When the Board of Investments initiated the one bank clearing system, the State Treasurer was advised of the Board's policy for the State Treasurer, on a daily basis, to transfer all monies available for investments into the one bank clearing account. The Board will investigate the excessive demand account balances, and should there be a necessity, the Board will establish maximum bank balances.

RECOMMENDATION, page 36

We recommend that the State Treasurer and the Board of Investments notify state banks that they will be responsible for maintaining adequate collateralization.

> We concur. Should a trustee bank release collateral without the expressed authority of the State Treasurer and a loss occur, it would seem to be a liability of the trustee bank involved. Any bank which releases collateral without authority of the State Treasurer should be notified of its error and initiate procedures to prevent further occurance. The Board concurs that the State Treasurer should notify the banks of their responsibility to maintain sufficient collateral. Should a bank have insufficient collateral, the funds should be transferred immediately to the clearing bank.

Mr. Morris L. Brusett
February 17, 1977
Page 2

The system for pledging for public funds is cumbersome and antiquated. The Board would support a more modern and efficient system.

Sincerely,

James R. Howeth
Investment Officer

JRH/dp

cc: Jack Crosser
Members of the Board of Investments

STATE OF MONTANA

Office of the Governor

Budget and Program Planning

Capitol Building - Helena, Montana 59601

Thomas L. Judge
Governor

Michael G. Billings
Director

February 15, 1977

RECEIVED
FEB 23 1977
MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
State Capitol Building
Helena, Montana 59601

Dear Morris:

This letter is in response to your request for comments concerning a recommendation to be included in your report on the audit of the State Treasurer's Office. The recommendation and this office's comments are as follows:

RECOMMENDATION: That the Office of Budget and Program Planning request a separate legislative appropriation from the general fund to the Department of Justice in the amount specified in Section 31–210, R.C.M. 1947.

OBPP COMMENTS: The Office of Budget and Program Planning concurs with the recommendation and will initiate action to revise the Executive Budget recommendations to include a general fund appropriation to the Department of Justice in the amount specified in Section 31–210, R.C.M. 1947.

Sincerely,

Mike

Michael G. Billings
Director